

STRATEGY OUTLOOK

OCTOBER 2025



SUCCESS. TOGETHER.

Key takeaways-

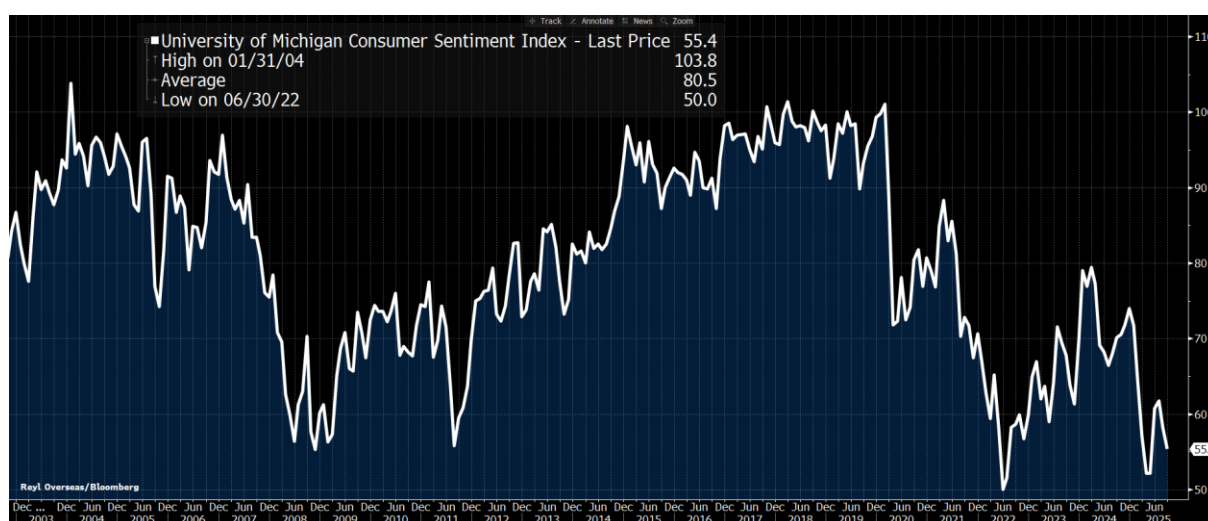
- K shaped economy driven by AI
- Running it hot, the new normal.

The noise of interest rate decisions, tariffs and binary politics continue to do a good job of obscuring the key drivers going forward. We remain focused on fiscal dominance, what AI means for the so-called K shaped economy and the, perhaps, radical moves being taken by the current Administration. Radical, not by choice, but by necessity. There is a lot going on with equal calls for recession and growth surges mixed with the ongoing issues of Western Governments and the tragic, unnecessary assassinations which, even then, cannot unite politicians and the electorate.

K The K shape is perhaps a good pictorial example of the divide in the economy between the boom sector of Tech (going up and to the right) and the rest (first graph highlights consumer sentiment). AI is driving micro-level equity performance, while at the macro level, Governments are increasingly reliant on buoyant markets to sustain fiscal stability. We continue to believe the goal from US authorities remains to **run the system hot** with the aim to reduce the deficit. That means getting the USD weaker to support reshoring, improves Treasury market functioning and is a counterbalance to China's trade practices. Stocks will perform, the real return on bonds will be poor and **Gold (and other monetary hedges) will keep doing what they've been doing.**

	September	YTD
S&P	3.9%	13.7%
Rest of the World	3.4%	22.6%
US Treasury	0.8%	5.3%
Gold	8.3%	47%
Bitcoin	5.4%	22%
WTI Crude	-1.4%	-8.9%
USD Index	-0.3%	-9.8%

The impact AI is having remains key. OpenAI just announced commitments equal to 17 nuclear plants or roughly 9 Hoover Dams to power the planned 17-Gigawatt data centers with Oracle and Nvidia. Oracle released earnings that were staggering. The sheer size of Oracle's order book puts this AI acceleration in perspective, the increase in backlog is nearly equivalent to the quarterly increase in US growth. AI is a seriously scary topic economically and socially. My kids school periodically dangles the carrot that kids need to start thinking about university. I have yet to respond with "University, as we know it today, may be fundamentally reshaped – a reality few are ready to confront. This is the problem, the potential impact AI will have over every facet of life is potentially nothing less than revolutionary.



However, for the time being, there does seem to be hesitancy or bearishness that the evidence (to date) is simply another wild human extrapolation that either never happened or that we are still waiting for e.g. flying cars, Y2K and the end of the world, running out of oil in the 1980s etc. etc. This probably means there is a lot more upside to these stocks, especially as their impact remains quite niche, it hasn't crept into the rest of the economy yet. Then the impact on growth will be staggering.



However, with a decade's worth of innovation happening every year in AI the West continues to ignore some lasting reality. Soaring deficits, inflation that refuses to fade, falling central bank credibility and rising geopolitical pressure. The bond vigilantes are back, no longer are bonds a one-way trade. However, the debt can't be written off and needs to be periodically rolled. **Authorities must massage this process by injecting liquidity. There is no other way.**

Gold and other monetary hedges, in this environment, remain an under owned asset particularly in institutions where bonds are the primary investment vehicle. The first graph shows the value of \$1 in gold terms. The Dollar, just like other currencies, is falling as more of the assets are printed. Gold acts as a hedge to this.

The second graph highlights gold as a ratio to the MSCI World stock market index. Gold returned 25% last year and is currently around +47% this year. Based on this graph it can get a lot more expensive. We remain long Gold, Silver and Palladium.



Ultimately, we continue to believe the business cycle and liquidity cycle remain supportive for assets going into the second half. Periodic risk off events will still occur, however these are more likely to be buy the dip moments especially in preferred assets. The downward sloping branch of the K will fight for prominence. Type into Google Trends a search "Help with mortgage" and it's at levels last seen during

the GFC. Just as there is a two-tier economy there is a two-tier society. Dollar Tree reported same store sales of 5.4% and a 6.5% increase in net sales. They note that 2/3 of their new customers are now earnings over \$100k, discretionary spending is under pressure and value seeking behaviour is intensifying. The first graph by the University of Michigan highlighted weak consumer sentiment. When you drill down and look at the 18-34 age group it's the gloomiest in over 30 years. Indeed, unemployment in this category whether with or without a degree is increasing. AI will see these issues only increase.

We added exposure to Palladium last month and, at the current juncture, have no plans to reduce risk into the New Year. Our bond exposure will likely be left to mature and reinvested in either precious metals or, if there is value, short, dated bonds more so for liquidity than anything else. TIPs with positive real yields could be a reasonable home for capital dependent on risk preference. However, we believe the news flow will move between each branch of the K economy with an underlying theme from Government wanting to deflate the deficit.



MRS. ROTHMAN, WILL ANY OF THIS BE
RELEVANT ONCE AI TAKES OVER?

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